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UNCLAS SECTION 01 OF 05 VIENTIANE 000409

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SNAR, ELAB, KWMN, PGOV, PREL, LA

SUBJECT: Timber, Roads, and Rubber in Sayaboury Province

Ref: A) 07 VIENTIANE 0390, B) 06 VIENTIANE 0674, C) 07 VIENTIANE 259

**¶1.** (SBU) Summary: While Sayaboury Province is isolated from the rest of Laos due to a lack of transportation infrastructure, some significant road projects are currently underway, and others are expected to commence within the next two years. Logging activity in the province has increased significantly in recent years and, in some areas, saw mill workers report that most of the hardwoods have already been cleared. The provincial government does not enforce contractual obligations that require timber companies to plant seedlings in areas where timber has been cleared. Instead, the province is looking to Chinese investments in rubber plantations as a means to reduce erosion in areas that have been cleared of timber.

The construction of a \$900 million USD lignite-fired power plant in Hongsa District is expected to commence in 2008. Brunei funded two new drug treatment centers in the province in 2006. The President of the Provincial Lao Women's Union (LWU), noting the recent opening of a U.S.-funded training project for women in the northern part of the province, expressed her hope that the program can be expanded in the future to other districts in the province. End Summary.

#### Sayaboury Province

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**¶2.** (U) Sayaboury Province is the fifth largest of Laos' 16 provinces and has a population of over 338,000. Among the major ethnic groups represented in the province, lowland Lao (61 percent) are the most numerous, followed by the Khmu (10 percent), Hmong (8 percent), Leu (8 percent), and Plai (6 percent). The province's 2006 gross domestic product (GDP) was approximately \$155 million USD, and per capita income was \$460 USD compared to national per capita income of more than \$500 USD. Timber is the province's leading export and primary source of revenue. The province is unique in that the Mekong River forms almost the entire northern and eastern borders. With no bridges over the Mekong, the province is almost completely disconnected from the remainder of Laos. The province shares a long land border with Thailand, but poor road infrastructure has restricted contact with Thailand, with the exception of a few areas.

CARE International and Foreign Workers

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¶13. (SBU) Mr. Somsack Bounyavong of CARE International's Sayaboury Province office informed PolOff that the province's investment climate is poor compared to many other provinces. There are ten districts in Sayaboury Province. CARE focuses its activities on Sayaboury District, which includes the provincial capital, one of the poorest in the country. Eighty percent of Sayaboury District is covered by mountains. The district has little paddy rice land and is primarily characterized by upland agricultural practices. There are 120 separate villages in Sayaboury District, largely populated by ethnic Hmong and Plai. CARE's activities in the district involve agricultural development, animal husbandry, and the protection of resources in minority areas.

¶14. (SBU) Most economic activity in Sayaboury District, as well as the province as a whole, is timber-related. Besides timber, other leading exports include non-timber forestry products as well as commercial crops such as corn and sesame. According to Somsack, most foreigners present in the province are associated with the timber industry. While the Thai are the most active within the timber industry, he described Chinese and Vietnamese as being much more active across a range of occupations. For example, he said Chinese and Vietnamese represent the majority of those selling tools and electronics as well as providing auto repair, electronic repair, and construction-related services.

¶15. (U) During a visit to a Chinese merchant's electronics shop in Sayaboury District, PolOff asked about the price of a Chang Hong brand television on his store shelf. The Hunanese merchant advised PolOff not to buy the television he had pointed to because, as the merchant said, "it is a fake." He told PolOff that he had real Chang Hong televisions in the back room for sale to those who could afford them and went on to note that more than 70 percent of the Chinese products his shop sold were counterfeit. Referring to the

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Chang Hong televisions, he noted that Chang Hong is a high-quality brand and too expensive for most Lao people. Using Chang Hong and other well-known labels, he said, several smaller electronics manufacturers in China produce less expensive televisions for the Lao and other less affluent markets.

#### Timber Exploitation

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¶16. (SBU) Sawmills dot the landscape throughout Sayaboury Province. According to saw mill workers and villagers in several districts, logging activity has increased significantly over the past few years, and hardwoods have almost been completely cleared in some areas. Logging concessions are reportedly granted by the provincial government based on the advice of the Province's Department of Agriculture and Forestry. In Sayaboury District alone, there are eight sawmill operations, and most small roads, bridges, and canals are reportedly funded by timber companies in exchange for timber quotas. The provincial government Fund is also made up of revenues from timber exports and reportedly funded more than half the cost of the more than \$2 million USD provincial government administration building.

¶17. (SBU) During a March 15 meeting, Mr. Bounlay Khamphoumy of the Sayaboury Province Department of Agriculture and Forestry described timber as the province's primary export and leading source of revenue. He remarked that, while companies have contractual obligations to plant seedlings in areas that have been cleared of timber, the provincial government does not enforce that aspect of the contracts. He noted that there are serious erosion and water supply problems in many areas where timber has been cut. He added that many provincial officials believe the province will have serious environmental problems in years to come. While noting that "it's not the best method," he described the planting of rubber trees as one means to protect against erosion in areas where timber has been cut.

#### Rubber Investments

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¶18. (SBU) Bounlay also indicated that the provincial government is counting on rubber to play a major role in the province's economic future. He noted that the province is working with Chinese

investors to promote rubber planting throughout the province. Currently, two Chinese rubber companies are active in the province. According to Bounlay, two types of arrangements have characterized rubber investments. The first arrangement requires the Chinese company and its workers to plant and tend rubber trees on a land concession. These rubber plantations are intended to be models for villagers to follow. The second method requires the Chinese company to provide technical expertise and sign an agreement to purchase rubber produced by the villagers. This arrangement relies on local villagers to tend the rubber trees as well as provide the land.

¶9. (SBU) According to Bounlay, the concession fee per hectare is \$5 USD per year. Standard concessions are for 30 years and primarily involve areas that have been cleared of timber. He told PolOff that the primary benefits the province gains from rubber investments are the ability to provide work for villagers and the revenue that villagers will receive from selling rubber. (Note: Rubber trees generally require seven to eight years to reach maturity; therefore, it will be several years before villagers receive any revenues. End Note.) In discussing rubber concession agreements that have already been reached, he said a 900 hectare concession has been granted to a Chinese company in southern Sayaboury Province. The same company's request for an additional 3,500 hectares is currently being considered. A second company has requested 500 hectares in each of the five northern districts of the province. (Note: Several small concessions - 25 to 100 hectares - have already been granted in the two northern districts of Hongsa and Ngeun. End Note.)

¶10. (SBU) Bounlay informed PolOff that no concessions will require villagers to move, except in areas where the villagers are not considered "permanent." PolOff, however, had met with a villager in Ngeun District who indicated that he and 10 other households were required to move to make room for a 25 hectare concession for rubber seedlings. Near Yang Village in Ngeun District, PolOff visited with

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more than 20 Lao Leu women who were digging holes for planting rubber trees on a 100 hectare Chinese concession. They told PolOff that Chinese investors had indicated that they would pay 3,500 kip per hole dug for the planting of rubber trees. The villagers anticipated additional earnings for caring for the trees, but no agreements had been made. (Note: On May 8, 2007, Prime Minister Bouasone Bouphavanh announced he had issued a decree halting the approval of future land concessions for industrial tree plantations, perennial plants, and mining projects involving areas of 100 hectares or more until a more comprehensive national strategy could be devised. End Note.)

#### Power Plant Investment

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¶11. (SBU) In 1994, the Government of Laos (GoL) allowed a Thai company to begin exploring an area in Hongsa District as a potential site for a lignite-fired power plant. The total announced investment was estimated to be \$900 million USD at the time. Following almost 13 years of survey and exploration work, the company, Banpu Power Company of Thailand, finally gained GoL permission to develop the power plant in 2006. Construction of the power plant is expected to begin in late 2008 or early 2009, with completion in 2012. The plant is expected to have generating capacity of 1,800 MW, most of which will be exported to Thailand. The Thai company behind the development of the Hongsa Lignite Power Plant - a joint venture with the GoL - has pledged a budget of \$16 million USD as compensation for villagers (360 families) who must relocate from the area. (Note: The GoL recently agreed to allow a Thai company the right to survey for a potential hydropower project on the Mekong River in Sayaboury Province as well. The project, which is valued at more than \$1 billion USD, also received a bid from an American company (Ref A). End Note.)

#### Road Infrastructure Developments

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¶12. (SBU) While timber companies have funded several of the smaller roads and bridges in the province - such as the one currently being built to connect the Governor's home village to Sayaboury town - in exchange for timber quotas, there are also several large road projects that are funded by international donors and the GoL.

According to the Road and Bridge Department of the Lao Ministry of Communication, Transport, Posts and Construction, the following roads are either currently being constructed or will be constructed in Sayaboury Province in the near future:

--Road 4A from Sayaboury District to Hongsa District with an extension to the border of Oudomsay Province; length 116 kilometers; construction dates 2006 - 2010; funding from the Asian Development Bank (ADB) and the GoL.

--Road 4A from Hongsa District to Ngeun District; length 120 kilometers; date of construction not determined; expected to be funded by the Hongsa Lignite Power Plant Project.

--Road 5356 from Ngeun District to Pakbeng, Oudomsay Province; length 49 kilometers; construction dates 2006 - 2009; funding from grant aid and loan money from the Thai Government.

--Road 4 from Xieng Ngeun District, Luang Prabang Province through Sayaboury Province from northeast to southwest toward the border with Thailand at Kenthao District; length 370 kilometers; construction dates 2008 - 2012; funding from ADB, Organization for Petroleum Exporting Countries (OPEC), AusAID, and the GoL. (Note: This is the only Sayaboury road project that includes a planned bridge over the Mekong between Sayaboury and Luang Prabang provinces. End Note.)

--Road 11 from Pak Ton Village in Vientiane Municipality to Vang Village in Vientiane Province near the Sayaboury border; length 42 kilometers, construction dates 2005 - 2009; funding from ADB. (Note: While the road only extends to Vang Village, it links with another ADB road project completed in 2006 that extends to the Mekong River just across from Paklay District, Sayaboury Province. While the GoL is seeking a donor to fund a bridge, the current project does not include a bridge connecting Vientiane and Sayaboury

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provinces. End Note.)

#### Brunei-Funded Drug Treatment Centers

¶13. (U) In March 2007, Mr. Khamkeo of the Sayaboury Province Commission for Drug Control informed PolOff that opium cultivation and addiction had declined dramatically in recent years. In 2003, for example, he said there were more than 550 hectares of opium in the province and more than 1,500 consumers. In comparison, there were only six hectares in 2006. As of March 2007, he said there were only 493 confirmed opium consumers in the province. Methamphetamine and adhesive (glue sniffing) addicts currently make up the bulk of the province's drug users. Khamkeo estimated that there were more than 900 methamphetamine and adhesive consumers, noting that sniffing glue and other adhesives is common among youth aged 14 - 16 years. He added that the province does not have facilities that are operational to treat such addictions yet.

¶14. (U) The Government of Brunei has completed two \$100,000 USD drug treatment facilities in November 2006. While each facility is expected to employ seven to eight staff, the facilities have not yet been furnished and are not yet open. Each facility is expected to accommodate 70 people, with separate facilities on the compound for men and women. One facility is in Sayaboury District and the other is in Ngeun District. The province provided \$15,000 for each facility and constructed roads to each. The provincial government will also provide staff salaries but has been seeking a donor to fund furniture and equipment. Mr. Khamkeo estimated an additional need of \$7,000 USD for each of the two drug treatment centers for furniture, equipment, and an administrative office on each property.

#### Lao Women's Union President

¶15. (U) On March 15, PolOff met with Ms. Thavee Panlak, President of the Sayaboury Province Lao Women's Union (LWU). The provincial LWU has worked with Save the Children Australia (SCA) on a long-term Integrated Rural Development Project that, among other things, establishes micro-credit programs in rural areas. SCA has been

active in the province since 1992 and has worked with the LWU since 1998. In March 2007, SCA began a vocational training program for ethnic minority women in Khop and Xienghoun Districts - two of the province's most remote districts. The project was funded by the U.S. Government through its annual Women's Issues Fund (WIF) and provides tailoring, weaving, and basic marketing training for women in these districts.

¶16. (U) In terms of out-migration, Ms. Thavee described the province's three southernmost districts of Paklay, Botien, and Kenthao as the most vulnerable. She estimated that approximately 2000 men and women from Sayaboury Province - mostly from these three southern provinces - worked in Thailand in 2006. She further estimated that 70 percent were women and 30 percent were men, most of whom were working in Thai provinces that border Sayaboury. Most men were working as manual laborers while women were mostly employed as domestic workers. She estimated that five percent of women migrants were involved in the Thai sex service industry and related entertainment work. Noting that the biggest challenges facing women include the lack of educational facilities in or near their villages and a lack of job opportunities, she said she hopes the WIF project in northern Sayaboury Province can be expanded to other districts in the future.

Comment

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¶17. (SBU) Illegal timber cutting is often cited as a problem in Laos. Unfortunately, the lack of government enforcement of legal timber contracts and the scale of government-approved logging in provinces like Sayaboury appear to be much more of an issue than illegal timber cutting. While rubber plantations are part of the provincial government's plan for increased economic development, several Sayaboury officials cited Luang Namtha Province as exemplifying what they do not want - rubber planting in nearly every region of the province without regard for environmental and food security factors (Ref C). Given the provincial government's

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performance in regard to enforcing timber contracts, however, it is doubtful the provincial government will have the will to refuse proposed Chinese rubber investments. Post is hopeful the Prime Minister's decree regarding the temporary cessation of land concessions of more than 100 hectares, and the plan to devise a comprehensive government strategy, will result in a more coherent and sensible national policy.

¶18. (SBU) The Hongsa Lignite Power Plant project represents a significant investment. If this project and the planned hydropower project cited in Ref A both come to fruition, Sayaboury Province would stand to receive foreign direct investment (FDI) of more than two billion USD over the coming several years. Apart from these two planned investments and a few million USD in rubber project investments, the province has received only a few million USD in FDI since 1994. With the two large-scale energy investments on the horizon, the tests for the GOL and the provincial government will be: whether or not they encourage the projects to be implemented in such a way as to provide employment and opportunities for residents of the province, and whether or not they require the two projects to be constructed according to international environmental standards.

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